

Message Text

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OMB-01 SS-15 SOE-02 DODE-00 DOE-11 H-02 INT-05
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TO SECSTATE WASHDC 8064

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E.O.11652: NA
TAGS: ENRG OECD
SUBJECT: IEA PRESS RELEASE ON OIL SUPPLY/DEMAND BALANCE
IN MID-1980'S

1. FOLLOWING IS FULL TEXT OF "BACKGROUND PAPER" DISTRIBUTED TO PRESS BY IEA EXECUTIVE DIRECTOR LANTZKE ON FEB 27 TO ILLUSTRATE LIKELIHOOD OF AN OIL SUPPLY/DEMAND IMBALANCE IN MID-1980'S AND CONSEQUENT NEED FOR STRENGTHENED ENERGY POLICIES BY MAJOR CONSUMING COUNTRIES. MISSION COMMENTS SUBMITTED BY SEPTTEL.

2. BEGIN TEXT - ON THE BASIS OF ADEQUATE ECONOMIC GROWTH AND EXISTING ENERGY POLICIES, WORLD DEMAND FOR OPEC OIL WILL RANGE FROM 42 TO 54 MILLION BARRELS A DAY BY 1985, ACCORDING TO MAJOR ECONOMIC PROJECTIONS. OPEC IS CURRENTLY PRODUCING 30 TO 31 MILLION BARRELS PER DAY. THUS, FOR OPEC TO MEET THE CALCULATED REQUIREMENTS FOR OIL IN THE WORLD IN THE MID-1980'S, IT WOULD HAVE TO INCREASE ITS PRESENT PRODUCTION BY A MI-
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NIMUM OF 33 TO 50 PERCENT OVER THE PRESENT LEVEL. BUT FOR SOUND ECONOMIC REASONS, IT WILL NOT AND CANNOT DO THIS. THE IEA HAS CALCULATED THAT, AT A MAXIMUM, OPEC WILL MAKE AVAILABLE BETWEEN 36 AND 40 MILLION BARRELS A DAY BY THE MID-1980'S (THEIR TECHNICAL CAPACITY BEING CALCULATED AT 44 MILLION BARRELS A DAY). OBVIOUSLY, THIS IS WELL SHORT OF THE DEMAND WHICH IS FORESEEN

FOR OPEC OIL IN 1985.

AT PRESENT, THE IEA COUNTRIES ARE CONSUMING 22 MILLION BARRELS A DAY AND, AT THE IEA MINISTERIAL MEETING IN OCTOBER 1977, REPRESENTATIVES FROM ALL 19 MEMBER COUNTRIES AGREED TO SET THE OBJECTIVE OF HOLDING DOWN THEIR CONSUMPTION TO NO MORE THAN 26 MILLION BARRELS A DAY BY 1985. THIS LIMITATION IS CONSIDERED NECESSARY GIVEN THAT NON-IEA DEMAND FOR OPEC PRODUCTION WILL RANGE SOMEWHERE BETWEEN 10 AND 12 MILLION BARRELS A DAY, THUS MAKING A TOTAL DEMAND FOR OPEC OIL OF BETWEEN 36 AND 38 MILLION BARRELS A DAY BY THE MID-1980'S, EVEN UNDER THE ASSUMPTION THAT THE IEA TARGET IS MET. IN COMPARISON WITH THE 26 MILLION BARRELS A DAY OBJECTIVE NOTED FOR THE IEA COUNTRIES, PRESENT ESTIMATES ARE THAT WITHOUT SIGNIFICANT RESTRAINTS ON CONSUMPTION THE INDUSTRIALIZED WORLD ALONE WILL REQUIRE BETWEEN 40 AND 45 MILLION BARRELS A DAY FROM OPEC BY 1985.

THE ALTERNATIVES

THE INDUSTRIALIZED WORLD IS CONFRONTED WITH ONLY TWO ALTERNATIVES FOR DEALING WITH THIS DANGEROUS SITUATION; EITHER WE TAKE ACTION TO REDUCE CONSUMPTION; OR A REDUCTION OF DEMAND WILL BE FORCED UPON US BY THE CONSTRAINTS OF SUPPLY. OBVIOUSLY, IT IS BETTER TO UNDERTAKE A REDUCTION AS A CONSCIOUS POLICY CHOICE, PARTICULARLY

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SINCE A FORCED REDUCTION OF DEMAND WOULD BE COMPRESSED INTO A SHORT PERIOD OF PERHAPS ONLY A VERY FEW YEARS. UNDER THESE CIRCUMSTANCES, MAJOR STRAINS ON ECONOMIC, SOCIAL AND POLITICAL STABILITY WOULD HAVE TO BE EXPECTED. THIS IS THE REASON FOR THE COMMITMENT UNDERTAKEN IN OCTOBER 1977 BY THE RESPONSIBLE MINISTERS IN ALL OF THE IEA COUNTRIES TO STRENGTHEN PRESENT ENERGY POLICIES.

THE CONSTRAINTS

THERE ARE, HOWEVER, FOUR MAJOR CONSTRAINTS ON STRENGTHENING EXISTING ENERGY POLICIES:

FIRST, THERE ARE THE REPORTS OF A CURRENT OIL OVERSUPPLY AND OVER-CAPACITIES IN EUROPEAN COAL PRODUCTION. THIS HAS LED TO A SHORTSIGHTED COMPLACENCY, NOT ONLY IN PUBLIC OPINION, BUT IN LEGISLATURES AND SOME GOVERNMENT CIRCLES. NEITHER THE PRESENT OIL OVERSUPPLY, NOR THE EXISTING OVER-CAPACITIES IN COAL PRODUCTION WILL CONTINUE PAST THE EARLY 1980'S. THUS, PRESENT OVERSUPPLIES FOR TECHNICAL OVER-CAPACITIES ARE EXTREMELY MISLEADING MEASURES FOR THE ADEQUACY OF FUTURE ENERGY SUPPLIES. IN ADDITION, HIGH STOCK LEVELS ARE ALSO MISLEADING, GIVEN THE PRESENT LACK OF ADEQUATE UTILIZATION

SCHEMES, ESPECIALLY FOR COAL. FURTHERMORE, NEW

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ALASKA AND NORTH SEA OIL WILL NOT BE AVAILABLE IN
SUFFICIENT QUANTITIES TO OFFSET GROWING DEMAND BY THE
MID-1980'S TO THE EXTENT THAT IS OFTEN ESTIMATED.

THE SECOND CONSTRAINT IS THE SLACKNESS OF ECONOMIC RE-
COVERY. AT BEST THIS WILL BUY THE INDUSTRIAL WORLD
ONLY A FEW YEARS IN TERMS OF RISING DEMAND. THE PRO-
BLEM IS THAT WE MAY REALIZE THIS TOO LATE; THE LEAD
TIMES FOR BRINGING NEW ENERGY SOURCES ON LINE HAVE
GROWN ENORMOUSLY. ALSO, SLOWER ECONOMIC GROWTH IS THE
LEAST SATISFACTORY MEANS TO DEAL WITH THE ENERGY
SITUATION.

MISLEADING REPORTS ABOUT "EXOTIC" ENERGY TECHNOLOGIES
WHICH PROMISE TO CHANGE THE ENERGY ECONOMY OVERNIGHT
CONSTITUTE A THIRD MAJOR CONSTRAINT ON DEVELOPING BETTER
ENERGY POLICIES. NOT A SINGLE DAY PASSES WITHOUT SOME
REPORT OF THIS KIND APPEARING IN THE PRESS; YET THESE
STORIES ONLY RAISE FALSE HOPES AND GIVE MISTAKEN IM-
PRESSIONS. THESE EXOTIC ENERGY SOURCES, ON THE BASIS
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OF PRESENT CALCULATIONS, WILL NOT BE ABLE TO MAKE ANY SIGNIFICANT CONTRIBUTION TO OUR ENERGY NEEDS BY THE END OF THIS CENTURY.

THE FINAL CONSTRAINT LIES IN THE DAY-TO-DAY EXISTENCE OF POLICY CONFLICTS AND LINKAGES WHICH MAKE THE CONSTRUCTION OF A MAJOR LONG-TERM ENERGY STRATEGY NEARLY IMPOSSIBLE. THESE CONFLICTS OCCUR IN GOVERNMENT/ENERGY INDUSTRY RELATIONS AND ARE THE RESULT OF COMPETING POLICY PRIORITIES WITHIN GOVERNMENTS AND BETWEEN VARIOUS GOVERNMENT BUREAUCRACIES.

THE STEPS TO BE TAKEN

THERE ARE THREE KEY STEPS THAT MUST BE TAKEN BY THE INDUSTRIALIZED WORLD TO AVOID AN ENERGY CRISIS IN THE NEXT DECADE:

(1) IT IS CRITICAL THAT THERE BE A COMBINED AND LASTING EFFORT TO STRENGTHEN THE ENERGY POLICIES OF THE INDUSTRIALIZED COUNTRIES. ENERGY POLICY MUST BE VIEWED AS A CONTINUOUS PROCESS IN ORDER TO REALISTIC SOLUTIONS TO BE FOUND. IT WILL REMAIN INSUFFICIENT TO ADOPT SIMPLE STOP-GAP MEASURES. IN THE IEA MINISTERIAL MEETING IN OCTOBER 1977, THE MINISTERS APPROVED TWELVE BASIC PRINCIPLES WHICH ARE A MAJOR STEP FORWARD TOWARD A MORE PRAGMATIC APPROACH. THEY REPRESENT WHAT CAN BE DONE IN A PRACTICAL WAY AT THIS STAGE AND IT IS ESSENTIAL THAT THEY BECOME PART OF POLICIES IN IEA MEMBER COUNTRIES. IT IS IMPORTANT THAT AN EVEN DISTRIBUTION OF THE BURDEN BE ACHIEVED IN THE COOPERATIVE EFFORTS AMONG IEA MEMBERS. SOME ADJUSTMENTS WILL APPLY MORE TO NORTH AMERICA AND SOME MORE TO EUROPE AND JAPAN.

IN THIS CONTEXT, IT IS IMPORTANT TO STRESS THE CONCERN
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EXISTING IN EUROPE AND JAPAN TODAY ABOUT THE U.S. DEBATE OVER THE CARTER ENERGY PLAN. THERE IS A CRITICAL NEED FOR A FINAL COMPROMISE IN CONGRESS WHICH LAYS THE PLATFORM FOR FUTURE EFFORTS IN ENERGY POLICY AND EASES TWO MAIN CONCERNS ABOUT THE PRESENT U.S. ENERGY DEBATE: (A) THAT IF THE U.S. CANNOT DEVISE A MEANINGFUL PROGRAM, THERE WILL BE A VISIBLE SLACKENING OF EFFORTS IN EUROPE AND JAPAN; AND (B) THAT IF THE U.S. FAILS TO MOVE QUICKLY IN A DIRECTION OF MORE RATIONAL ENERGY

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POLICY, THIS WILL GIVE RISE TO BILATERAL EFFORTS ON
THE PART OF THE EUROPEANS AND JAPANESE TO SECURE OIL
SUPPLIES FOR THEIR OWN FUTURE USE. THIS, IN TURN, WILL
HAVE A PREDICTABLY HEAVY UPWARD IMPACT ON OIL PRICES.

(2) THE INDUSTRIALIZED WORLD MUST DEVELOP MORE REFINED
ANALYTICAL EFFORTS IN THE FIELD OF ENERGY POLICY, MOVING
FORWARD FROM PURE EXTRAPOLATION INTO A MORE POSITIVE
ASSESSMENT OF HOW OUR FUTURE ENERGY ECONOMIES COULD AND
SHOULD LOOK. ONLY FROM THIS WILL WE BE ABLE TO DEVELOP
APPROPRIATE POLICY RESPONSES TO DEAL WITH THE
STRUCTURAL PROBLEMS WHICH ARE LIKELY TO OCCUR. IN THE
CASE OF ENERGY ANALYSIS, WE HAVE WRITTEN PARADISE LOST
BUT WE ARE A LONG WAY FROM WRITING PARADISE REGAINED.

(3) THE THIRD AND EXTREMELY IMPORTANT TASK FACING THE
INDUSTRIALIZED WORLD IS TO INCREASE PUBLIC AWARENESS
OF THE ENERGY PROBLEM. THIS WILL REQUIRE A CONTINUOUS
EFFORT. YET IT MUST NOT BE DONE IN TERMS OF TECHNICAL
ENERGY CALCULATIONS BUT RATHER IN TERMS OF THE CONSE-
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QUENCES FOR SOCIAL, POLITICAL AND ECONOMIC STABILITY
WHICH WILL BE INEVITABLE IF THE INDUSTRIALIZED WORLD
FAILS TO COME TO GRIPS WITH THE DEVELOPING ENERGY
PROBLEM. END TEXT.
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